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# REORGANIZATION OF THE BUREAU OF INTERNAL REVENUE

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HEARING  
BEFORE THE  
JOINT COMMITTEE ON INTERNAL REVENUE  
TAXATION ON REORGANIZATION OF THE  
INTERNAL REVENUE SERVICE  
HOUSE OF REPRESENTATIVES  
EIGHTY-THIRD CONGRESS  
FIRST SESSION  
ON  
TESTIMONY OF THE SECRETARY OF THE TREASURY AND  
THE COMMISSIONER OF INTERNAL REVENUE

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SEPTEMBER 25, 1953

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Printed for the use of the Joint Committee on Internal Revenue Taxation



UNITED STATES  
GOVERNMENT PRINTING OFFICE  
WASHINGTON : 1953

## JOINT COMMITTEE ON INTERNAL REVENUE TAXATION

### HOUSE

DANIEL A. REED, New York. *Chairman*  
THOMAS A. JENKINS, Ohio  
RICHARD M. SIMPSON, Pennsylvania  
JERE COOPER, Tennessee  
JOHN D. DINGELL, Michigan

### SENATE

EUGENE D. MILLIKIN, Colorado, *Vice Chairman*  
HUGH BUTLER, Nebraska  
EDWARD MARTIN, Pennsylvania  
WALTER F. GEORGE, Georgia  
HARRY F. BYRD, Virginia

## **PREFACE**

The Joint Committee on Internal Revenue Taxation has been receiving complaints about the reorganization of the Internal Revenue Service from various sources. Accordingly, the committee deemed it advisable to hear the Secretary of the Treasury and the Commissioner of Internal Revenue on this matter. The Secretary of the Treasury and the Commissioner of Internal Revenue testified before the committee on September 25, 1953. This testimony is hereby released for public analysis, criticism, and comment.



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# REORGANIZATION OF THE BUREAU OF INTERNAL REVENUE

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FRIDAY, SEPTEMBER 25, 1953

CONGRESS OF THE UNITED STATES,  
JOINT COMMITTEE ON INTERNAL REVENUE TAXATION,  
*Washington, D. C.*

## EXECUTIVE SESSION

The joint committee met at 2:30 p. m., pursuant to call, in the hearing room of the Senate Committee on Foreign Relations, the Capitol, Hon. Daniel A. Reed, chairman of the joint committee, presiding.

Present: Representative Daniel A. Reed, Senator Eugene D. Millikin, Senator Walter F. George, Senator Harry F. Byrd, Representative Jere Cooper, and Representative John D. Dingell.

Present also: Colin F. Stam, chief of staff of the joint committee; G. D. Chesteen, assistant chief of staff of the joint committee; and Bryant C. Brown, secretary of the joint committee.

Present also: Russell E. Train, chief clerk of the Committee on Ways and Means; Thomas A. Martin, assistant clerk; and Leo H. Irwin, minority adviser to the Committee on Ways and Means.

Present also: W. Herbert Danne, A. R. Marrs, Bernard H. Barnett, and William A. Sutherland, members of the Advisory Group on Reorganization.

Present also: Elbert Parr Tuttle, General Counsel, Office of General Counsel for the Treasury; O. Gordon Delk, Deputy Commissioner of Internal Revenue; Thomas C. Atkeson, Assistant Commissioner (Planning); Justin F. Wingle, Assistant Commissioner Operations; Norman A. Sugarman, Assistant Commissioner (Technical); James R. Turner, staff assistant; and Edward F. Preston, staff assistant.

Chairman REED. The committee will come to order.

Under the provisions of the Internal Revenue Code, it is provided that, first, it shall be the duty of the joint committee to investigate the operation and effect of the Federal system of internal revenue taxation; and, second, to investigate the administration of such taxes by the Bureau of Internal Revenue or any executive department, establishment, or agency charged with their administration under this provision.

Because the committee has this specific duty under the law, I believe it highly important that our committee be apprised of the methods and means which are now being applied in reorganizing the Bureau of Internal Revenue.

There were many members of our committee who were skeptical about the reorganization plan proposed by the prior administration last year, and I am particularly concerned about the fact that you are continuing the reorganization of the Bureau along the lines of the plan of the former administration and are carrying decentralization of the Bureau to extremes. This meeting was called to see where this plan is leading us.

I have certain questions about the reorganization plan which I hope the Secretary and the Commissioner will be able to answer for the benefit of the committee. I would prefer to have you give the answers to the questions as they are asked.

I might say further that I felt if there should be any criticism of the administration or the results, if I did not call the committee together and give them an opportunity from time to time to see what was going on, I might be subjected to criticism.

I discussed this matter with the Secretary, and I knew some of the Senators would be here and some of the Members of Congress, and I thought perhaps we could bring out by some questions the information that we desired, in order to clarify the matter.

Chairman REED. My first question relates to the revenue situation, and concerning field examinations. I would like to quote a letter which has been received from a field agent, which has disturbed me very much:

As you are well aware, some \$2 billions per year of income-tax deficiencies are produced through field examinations. It appears that the outgoing administration set aside all field work and had all examining agents during the tax-filing period assisting taxpayers in various offices for some 6 to 8 weeks. Now the examining force is in the process of handling the returns of small taxpayers through correspondence and likely another 2 months of revenue will be lost. Adding on time for cancellations and new appointments, it looks like close to one-half year's revenue through field examination will be lost. It may be close to \$1 billion, in my estimation, which is not good reading in view of the President's desire to balance the budget.

The tables which the Commissioner has submitted to the staff indicate the additional revenue from field examinations for the fiscal year 1953, in the number of returns examined by revenue agents, and also in the amount of revenue recovered from additional examinations, has been dropping considerably.

For example, the additional revenue from field examinations of corporations for the fiscal year ending June 30, 1953, dropped 21.3 percent below that for the fiscal year 1952, and 12.6 percent below in the case of individuals. I hope you can supply us with the figures for the months of July, August, and September.

One of the reasons why our voluntary system of collecting revenue has worked so well in the past has been the fact that examinations for additional taxes are continually being made, so that those who do not report their correct taxes when they file their returns are caught up with on field investigations.

I would now like to ask: What steps are being taken by the revenue agents to bring in undeclared taxes?

**STATEMENT OF HON. GEORGE M. HUMPHREY, SECRETARY OF THE TREASURY**

Secretary HUMPHREY. Mr. Chairman, we want to handle this meeting just the way you want it handled, but I think I would like, from my own point of view, to state to you just what the situation is at the moment, as I see it.

When Mr. Andrews accepted this job, and we started out here 6 or 8 months ago, I asked him to please remember that he had a business organization here to run; that we had to collect the taxes; and the first thing he had to do was to get his organization operating as he found it, and to handle it the best he could. I suggested that he make no important changes or go into any important reorganizations or anything of that kind, until he had had 6 months or so to look the ground over and see how it functioned, and to be sure that we rendered the best possible service to the taxpayers on March 15 and June 15, the dates that were coming up.

Well, he did that, and along later, quite a bit later in the spring, he came to me saying that the thing was functioning and that he had been over the proposed previous reorganization plans, and that he had some suggestions for improvements. Mr. Tuttle and several of us in the office listened to his plans and his programs, and they sounded very reasonable to us.

I am very glad indeed to have this meeting with this committee today. I think perhaps we should have had it before. I thought that we were keeping in touch with people individually about as well as we could, and trying to keep people posted, but it was not as good as having a meeting of the committee.

When we had gone over his plans, and approved of them, we thought they looked right and it looked like steps in advancement, then before anything was done we asked for a meeting of everybody we thought was involved, including the chairman and ranking minority members of each committee that has to do with our functions, and each Senator and each Representative from every district where any change was going to be made. We had those meetings. There were so many that we could not have them all in one meeting. We had two. I think, Mr. Chairman, you were away, or something detained you so that you were not there.

Representative COOPER. That is the meeting held in the Finance Committee room of the Senate?

Secretary HUMPHREY. That is right. You were there, and I think Senator George was there, and Mr. Dingell was there. We had a very good attendance. We had 60 or 70 people.

The whole thing was gone over at that time very carefully, to explain what the program was.

Now, that program is the program we have been carrying through, and the only one. I am sorry that we did not explain it to this committee as a committee, although it was pretty well gone over individually.

What I would like to suggest would be this: I wonder if it might not be well, just preparatory to the answer of that specific question, if Mr. Andrews, to refresh our recollections, would just outline briefly

what it is that he is trying to do, and then take up these questions specifically. Would that be agreeable?

Chairman REED. Well, there are not many of these questions, and I thought if we could get those answers, and then have a statement and such questions as the members of the committee would like to ask, it would be helpful.

Secretary HUMPHREY. We will do it either way you like. I thought if we had the background in our mind, it might expedite it.

Representative DINGELL. You might have the answers to the questions in your statement; is that what you mean?

Secretary HUMPHREY. It might help with the understanding of the questions if we just had in mind exactly what the proposal is and what it is doing, just to refresh our recollections, that is all.

Chairman REED. I want to be accommodating, of course.

Secretary HUMPHREY. I will ask Mr. Andrews to do it very briefly, and we will not expand on it, and then go right to the questions.

#### STATEMENT OF T. COLEMAN ANDREWS, COMMISSIONER OF INTERNAL REVENUE

Mr. ANDREWS. Mr. Chairman and gentlemen, you understand, of course, that as of right now we are without any specific knowledge as to exactly what questions you want answered.

Chairman REED. That is what I had in mind. I thought if I could ask the questions, then if it was not covered to the satisfaction of the committee, they could ask for further explanation. Perhaps you will not have any trouble answering these questions.

Mr. ANDREWS. I believe, though, if I may suggest, that this background information is desirable to understand the questions, and to do the thing the other way would be to sort of put it backwards. I do not want to insist, but not having been given any specifications of what you gentlemen want, we have come here with a great mass of information. If I undertook to give it all to you, we would be here 2 or 3 days, and it is going to be rather difficult to boil it down. I will go ahead any way you want.

Chairman REED. Well, I would prefer—and I do not know how the committee feels—to ask the questions, and then after you cover those questions you can make your explanation.

Secretary HUMPHREY. In view of what has been said, you had better do that.

Mr. ANDREWS. Well, now, gentlemen, as to the first question there, I understand it is essentially: "Have the revenue collections been affected by the reorganization?"

I have a brief statement here which I think will give you what you want to know.

The total revenue collections for the fiscal year 1953 were \$69,687 million.

Chairman REED. Just a moment. Let me get a pad here to take this down. How much is that?

Mr. ANDREWS. \$69,687 million.

Senator BYRD. That includes the trust funds?

Mr. ANDREWS. That includes everything.

I would like to answer your question specifically, Senator Byrd, and I would like to pass that question on, to be sure. I think that you are right.

Does that include trust funds, Dr. Atkeson?

Dr. ATKESON. It includes all—on a collection basis.

Senator BYRD. What are the amounts of the trust funds, not considered as tax statute funds?

Mr. ANDREWS. It was about \$4.1 billion for Federal old-age and survivors insurance on the basis of the Treasury Daily Statement.

Representative DINGELL. That is good enough for practical purposes. You can send us the exact amount.

Senator GEORGE. Was that for fiscal 1953?

Mr. ANDREWS. That is for fiscal 1953. Total collections were larger than fiscal 1952 by \$4,677 million.

Chairman REED. Would you give us that figure again?

Mr. ANDREWS. \$4,677 million. In other words, it was close to 7.2 percent larger.

Senator BYRD. Wherever possible, if you could separate the trust funds from the regular receipts of the Government, it would be helpful.

Mr. ANDREWS. I am afraid I cannot do that.

Senator BYRD. I do not believe the Government owns those trust funds.

Mr. ANDREWS. I could supply that figure, of course.

Senator BYRD. What I mean is, we do not own the trust funds, and any reductions in these trust funds would be important, from my standpoint.

Later on I would suggest that you furnish that exactly: What are the receipts, governmental receipts, as we recognize them, and how much are the trust funds.

Mr. ANDREWS. We can supply that.

(The information supplied for the record is as follows:)

*For the fiscal year 1953*

*Millions*

Total budget receipts based on Treasury Daily Statement-----	\$72,455
<b>Deduct:</b>	
Appropriation to Federal old-age and survivors insurance trust fund-----	4,086
Refunds of receipts-----	3,151
Net budget receipts-----	65,218
Total internal-revenue taxes collected by the Internal Revenue Service on a collections basis-----	69,687

Representative COOPER. What was the last figure?

Mr. ANDREWS. Internal revenue collections for 1953 were \$4,677 million greater than in 1952.

Now, of the total collections for fiscal 1953, 97 percent represented voluntary payments originally reported and paid by the taxpayers in accordance with the law as to the time on which they should pay them.

Representative COOPER. Was that 97 percent?

Mr. ANDREWS. Yes, 97 percent.

Representative COOPER. For 1953?

Mr. ANDREWS. Yes, sir.

Representative DINGELL. Those are people that you did not have to go after?

Mr. ANDREWS. Just people who came up to the counter and paid their money in.

Senator MILLIKIN. How does that compare with previous years, Mr. Commissioner?

Mr. ANDREWS. It is probably a little bit lower. My recollection of the figures for the last 3 years was that in 1951, 1952, and 1953, there was a slight dropoff each year from the year before, so that the \$2,100 million, as I recall the figure, is a little bit less than in the previous year.

Representative DINGELL. Is that from demoralization in the field?

Mr. ANDREWS. No, sir; I do not think that that is the answer entirely. It may be a part of it, and I want to try to cover that in answering this question.

Representative DINGELL. That is an important thing.

Representative COOPER. Ninety-seven percent of the payments for 1953 were voluntary?

Mr. ANDREWS. That is right, and the involuntary payments were \$2,100 million, or 3 percent.

Our program seeks to maximize the voluntary collections and to reduce the amount of tax liability that requires enforcement efforts. I hope that during the course of this discussion and exposition, we will be able to indicate to you how we propose to do that.

Since the total collections increased nearly \$4.7 billion in 1953, it is evident that the overall-collection situation has not been affected adversely by reorganization.

Involuntary collections, representing only 3 percent of the total collections, aggregated \$2.1 billion during 1953.

Taxes paid involuntarily may be divided into two broad classes: collections of delinquent taxes, and taxes assessed as a result of audit or investigation of returns.

Collections from past due accounts by the use of warrant for distraint procedure aggregated \$506 million in 1953, as compared with \$456 million in 1952, an increase of 10.8 percent.

The 1953 figure is the largest amount ever collected from this source in 1 year.

The second type of involuntary collection, representing unreported tax liability uncovered by the audit of returns, plus penalties and interest, declined from \$1,840 million in 1952 to \$1,600 million in 1953, or a decrease of 13 percent.

Representative DINGELL. It was about \$250 million.

Mr. ANDREWS. That is right.

Now, three factors, all independent of the reorganization and associated with the period of transition, may be identified as major causes of this decline. In stating these, I want it distinctly understood that I do not for one moment wish to leave the impression with you gentlemen that the reorganization itself has not had some adverse effect upon collections. How much it is, I frankly cannot tell you, and I do not think anybody else can.

That I think we should discuss a little bit later, because there is a great deal of misconception as to what the reorganization has done.

Representative DINGELL. Is that a part of the Hoover reorganization?

Mr. ANDREWS. As I recall, in 1950 Reorganization Plan No. 26 was passed. That was the plan under which the Secretary of the Treasury took over or there was transferred to the Secretary of the Treasury

all of the authorities previously enjoyed by the heads of the various subdivisions of the Treasury.

Representative COOPER. If you will pardon me, my recollection is that the Hoover Commission did make some recommendations.

Mr. ANDREWS. That was a recommendation of the Hoover Commission.

Representative COOPER. It was included, as I recall, as one of the recommendations.

Mr. ANDREWS. That is right. It was a part of their recommendations that the Secretary be made responsible directly for these various operations under him.

Secretary HUMPHREY. But he did not make the detail.

Mr. ANDREWS. That is correct.

Reorganization Plan No. 1, which was passed last year, was an entirely different matter, and although it was not too specific in its details, it was explained, as I understand it from the record, in both the House and the Senate committees that considered it, so that its form would be understood.

If you will recall, the reorganization plan as adopted had a provision in it that there would be not more than 25 district commissioners in the setup.

Representative DINGELL. You reorganized that again downward.

Mr. ANDREWS. Well, the authority exercised under that was to set up 17 districts, and after we had taken a good look at it and after careful study, we concluded that 9 was about all that could be justified, and there were good reasons for that which we can go into if you wish. We settled upon that, and that is what we explained to Mr. Humphrey.

Representative DINGELL. That was your idea, Commissioner?

Mr. ANDREWS. That is right.

Representative DINGELL. And not Hoover's?

Mr. ANDREWS. Yes, sir.

Representative DINGELL. I am for that idea, and not somebody who does not know a thing about it. You had on the Hoover Commission some fellow from the University of Michigan, one of those self-anointed great experts on reorganization of government, and he put in a lot of ideas that were, in my estimation, cockeyed, and I would rather leave it to you men who work with it to reorganize it properly than to have somebody who has a lot of theories about it.

Mr. ANDREWS. I am kind of glad you mentioned it.

Representative DINGELL. The first report we get we find instead of all of this gain that we are to have on it, you report a loss. That is a laugh. I have a split lip, so I cannot enjoy the laugh quite as much as I ought to.

Mr. ANDREWS. I am glad you mentioned the fact we did it, because I want to make it perfectly clear that the organization as it now stands, we take the full responsibility for. It is based upon the experience and the judgment of the people who have been in the front lines of enforcement all of their lives, three of whom are here today.

Representative DINGELL. And not some dreamer.

Senator GEORGE. I am not interested, Mr. Commissioner, in an academic proposition, but I did not think Reorganization Plan No. 1 was a Hoover proposal. The Secretary down there who took over represented it variously up here to the Congress as a Hoover proposal, but it was only in part.

Representative DINGELL. It was in part.

Senator GEORGE. It was remotely related to it in some way or other. But that is just an academic question, as far as that goes.

Mr. ANDREWS. Just so that there be no misunderstanding between us, Senator, as to what Reorganization Plan No. 1 was, that was not the Hoover plan. I do not think that I said that.

Senator GEORGE. That is what I said. I never considered it as such.

Representative DINGELL. It was related.

Senator GEORGE. I do not think it ever was a part of the Hoover report.

Mr. ANDREWS. A moment ago I said there were three factors, all independent of the reorganization and associated with the period of transition, that may be identified as major causes of the decline in unreported tax liability uncovered by the audit of tax returns.

No. 1 was the continuing dropoff in additional assessments of excess profits tax from World War II returns, which amounted to \$45 million in 1953.

No. 2 was a drop of \$3 million in the appropriations of the Revenue Service, from 1952 to 1953. There was an actual decrease in expenditures of about \$3,281,386.

This was a major factor in the decline of the average number of revenue agents and collection officers on the rolls in fiscal 1953.

The third reason is that the stepped-up taxpayers' assistance program during the 1953 filing period took 536 revenue agent man-years. That was 536 man-years of revenue agents' time in 1953, or considerably more than in prior years. In other words, it was a determination, an administrative determination of the previous administration, that in the filing period of 1953 there would be increased emphasis upon assisting taxpayers in preparing their returns, with people who knew how to do it.

Now, you will remember that I came in here a little bit behind the Secretary, and he took office, I believe, around the 20th or 21st of January. I came in on the 4th of February. At that time the administrative determination, or the implementation of the administrative determination to give the taxpayer every possible assistance, including the use of revenue agents, was under way.

I had, therefore, to make a decision whether we would continue that or would drop it. On analysis I concluded that to drop it would be a big mistake. It had been announced in the press, and that had been done as a good public-relations move, I think, and I did not feel that I could justify reversing that program.

I had other reasons for it, aside from the public-relations aspect of it, which we think were extremely good. In the first place, it was perfectly obvious to us that if we were able to do that we would be able to get our refunds out much quicker. We did get most of our refunds out by the 15th of April under that program. That is a part of it. It was one of the reasons. We estimate that we saved about \$2,100,000 in interest by that move. It may well be that the amount of additional taxes not caught during that period was more than \$2,100,000, and I would not say it was not. I will say, however, that I do think that in the long run the more tax returns we can get made accurately in the first place the less administrative cost we are going

to have in examining those returns. That has been proven over and over again, and attention was called to it in very positive terms by an advisory group set up by your committee in 1948. They said we needed more taxpayer assistance and should make every effort to give it to them.

If you wish to have it, we can read you exactly what the committee said about it. That program, in other words, was one recommended by a group that you gentlemen yourselves, or this committee, created. It advised you that that was the thing to do.

They did it, and I think it was a good move. Whether you could identify or put a price tag on it in relation to the additional taxes that were missed I doubt very seriously. I do not think that you can. Whether we will go as far next year with the same thing, or in the filing period of 1954, is also an open question. We have not committed ourselves yet.

Those are the three things that were done that probably to some extent affect this question of revenue realization.

Representative COOPER. Would it disturb you for me to ask you a question for information there?

Did I understand you correctly that some effect on this question of revenue was the reduction in personnel? You mentioned that, as I caught it.

Mr. ANDREWS. Oh, yes.

Representative COOPER. That was by reason of the reduction in the appropriation for your bureau?

Mr. ANDREWS. For the fiscal year 1953 appropriation.

Representative COOPER. I recall some of us on the Ways and Means Committee tried our best to prevail on your distinguished fellow townsman, our good friend and colleague, Vaughn Gary, in charge of the bill, that it was not in the interest of economy to not provide sufficient funds to have the number of agents that was necessary to collect the taxes that we had to get. In other words, if you did not have the people that had to get the taxes, that was not the best way to go about real economy. But he is very economy-minded, you know, and we could not get that \$3 million that you are talking about.

Mr. ANDREWS. Let me add to that, if I may, that applied to the budget under which I began operating.

Chairman REED. Pardon me. Right there, so that I will be clear on this, I do not know whether it was you, or whoever appeared before the Appropriations Committee—did you not say that you could get along with that number?

Mr. ANDREWS. I am coming now to that, and that is what I want to come to right now.

As to fiscal 1954, when we took over the Revenue Service, gentlemen, we found an almost demoralizing situation. If you want to go into the details of it, I will be perfectly willing to do it, but I am going to say this to you quite frankly: That if the things that we are doing are successful, and assuming that they will be successful—if those things were not done, you will not have a revenue service in 5 years worthy of the name. I will give you one illusion.

We are right now dreadfully short of revenue agents. Now, that is not a complaint. We accepted the 1954 budget, and everybody understood it, starting off with about 1,200 revenue agents short, but

with the provision that will enable us to bring that strength back up if we can get the agents.

Now, I want to say to you very frankly, after my 8½ months here, that you are not going to get these agents until something like we are doing here is done to restore the confidence of the people in the Service, and to make the Service attractive to people who want to make a career out of Government.

That attractiveness did not exist when we took over. I think it does exist now. We are trying to fill up, and trying to get those 1,200 agents. But I say to you that it is extremely hard to get them.

In the first place, the registers are 2 years old, and the people on those registers undoubtedly have found jobs elsewhere by now.

Chairman REED. How long does it take to train these men before you put them in the field?

Mr. ANDREWS. It should take, Mr. Chairman, according to our estimates, to equip a man to go into the field, about 4 months, as a minimum.

Representative DINGELL. As an agent?

Mr. ANDREWS. As an agent; yes, sir.

Representative DINGELL. Or a deputy internal revenue collector?

Mr. ANDREWS. No: as an agent.

Representative DINGELL. Four months?

Mr. ANDREWS. Yes; a man to go out and really do a job of examining a tax return.

Representative DINGELL. But he really should have internal-revenue experience, should he not, before he gets this 4 months' training? That is extra training; is it not? You send them to Brooklyn to a school, and they also take a correspondence course.

Mr. ANDREWS. You understand that the people we want as revenue agents should have accounting and auditing experience. They do not have to have experience as revenue agents, and we do not start a brandnew revenue agent on a complicated tax return. We give them the simple returns, and we build him up over a period of years to the point where he can handle a complicated return.

Representative DINGELL. Do you not try to get them out of the Revenue Service rather than pick them off the street?

Mr. ANDREWS. We cannot get all we need of that type of people out of the Revenue Service, Mr. Dingell, because they are not in there. There are not enough of them. The additional people we need are in the colleges being trained as accountants and auditors, and some of them are in business and some of them may be working for the public accountants. In other words, what we are doing here is running the biggest auditing business in the world.

Representative DINGELL. I realize that.

Mr. ANDREWS. That is what we are doing, and we are looking for auditors. You do not pick them off of trees. They have to be trained, and they have got to have a certain amount of basic education.

Now, we have a plan for improving that situation and making the supply greater and attracting more people to the Service, and developing a backlog of people who want to make a career out of the Revenue Service, that we think will be almost 100 percent effective.

If we can do it in 5 years, I will be willing to say to you, on the basis of my reputation, that in 5 years we will have a Service that will be the finest career service in the United States Government.

That is not to be done immediately. It cannot be done immediately. It will be done in time, and it is going to take time. We would like to start it soon.

So you ask how long it will take to equip a revenue agent, and to send him out to examine a return. I say about a minimum of 4 months. It may take 8 months, and I think we have got to assume the responsibility of training just like business assumes the responsibility of training its recruits to its service, whatever it may happen to be.

Representative DINGELL. Do we not have a school in Brooklyn?

Mr. ANDREWS. We do occasionally, like in all other large centers for purposes of 60-day training classes, Mr. Dingell, but we do not do it, in my opinion, on an adequate basis, and it has to be improved.

Moreover, we have got to convince the entire public that the Revenue Service is going to be a career service, or you are not going to attract these people.

I had that experience, gentlemen, in the Corporation Audits Division of the General Accounting Office. We got good men for that because we convinced the people qualified to work in that agency that we were going to have an organization where men of that kind of talent would be able to make a good career. If you do not maintain that situation, you are not going to get good revenue agents.

It is quite serious. I was in one of our Midwest offices recently. Seventy percent of the top people in that office will be retiring within the next 5 years. So don't think that I am just being an alarmist when I tell you in 5 years you will not have any Revenue Service if something like we are doing here is not done. I mean it seriously. There just will not be people to run it. That is one of our most serious problems.

Chairman REED. Then you are probably not retiring the career men who are anywhere near the retirement age; are you?

Mr. ANDREWS. Sir?

Chairman REED. You are not retiring the agents near retirement age if you are short of them?

Mr. ANDREWS. We are building up our field force.

If you will permit, I would like at this time just to give you a little background. I can do it—

Representative COOPER. Just one second there.

On your point there, Mr. Chairman, you can persuade and undertake to influence, but it is not within your control when a man retires. A man under civil service has a right, himself, to make application for retirement, and you cannot control that.

Mr. ANDREWS. That is correct.

Chairman REED. Have you had many of those cases?

Mr. ANDREWS. You mean, do I have many people who are retiring?

Chairman REED. Yes; that want to retire.

Mr. ANDREWS. We certainly do, and the average age of the people in the Revenue Service, Mr. Reed, as I recall it, is over 43 years. We have got a very large percentage, and I do not happen to have it with me, but a very large percentage of our people are over 55 years of age. The average is better than 43.

Now, there is a reason for that, a good reason for it. That reason is that the Revenue Service is a stable service. It is like under that

old rule, death and taxes are certain; you are always going to have a revenue department. People who come to the Revenue Service usually stay with it, because it is a stable employment situation as a rule. Consequently, we have developed a considerable number of older people in the Service, and we have lost a lot of young people.

Now, under ordinary circumstances, the loss of younger people after a few years of experience in a service ought not to be a matter of any concern to us. By that I mean if we are getting in a good supply all of the time, to be perfectly frank with you, as a businessman, I like turnover. Turnover of personnel is a good thing for any organization, provided you have got a supply of people coming in that are qualified to take on the job of those who are leaving.

(The information as to distribution by age classes is as follows:)

*Comparison of ages of all Internal Revenue employees as of Mar. 31, 1953*

Age group	Number of employees			Percentage distribution		
	National office	Regional districts	Total	Simple	Cumulative	
					Highest to lowest	Lowest to highest
Under 20	47	195	242	0.45	100.00	0.45
20 to 24	238	1,377	1,615	3.03	99.55	3.48
25 to 29	324	4,718	5,042	9.44	96.52	12.92
30 to 34	355	6,893	7,248	13.57	87.08	26.49
35 to 39	403	7,474	7,827	14.66	73.51	41.15
40 to 44	457	6,871	7,328	13.73	58.85	54.88
45 to 49	467	6,396	6,863	12.85	45.12	67.73
50 to 54	397	5,569	5,966	11.17	32.27	78.90
55 to 59	571	5,562	6,133	11.49	21.10	90.39
60 to 64	397	3,190	3,587	6.72	9.61	97.11
65 to 69	197	1,206	1,403	2.63	2.89	99.74
Over 69	15	123	138	.26	.26	100.00
Total	3,868	49,524	53,392			

Representative COOPER. There is another very good reason for that, as I see it. That is that business institutions, corporations, and businesses, need tax experts in their own business. If you have somebody there who is qualified, they may pay them twice as much as you can pay them, and he would be worth that to them. It is to your advantage to have trained men in those places, but it hurts you when you have to lose them.

Mr. ANDREWS. In every 100 men that you hire and put on the payroll, there will remain out of those men—I am assuming now that these are well-picked people—there will remain out of that 100 people, as permanent career employees of the service, enough to enable you to do a bang-up job of administration, provided you give them a real opportunity for a career in the service; and provided, also, you do see that they are the proper kind of people in the beginning. So the turnover does not worry me. The main thing now is that I want to establish, and we are all trying to establish, a situation under which people will want to come to work for the Internal Revenue Service. That is our big problem. You can talk about reorganization and everything else you want to, but that is our most serious problem.

Representative DINGELL. But why? What is the cause of it? There must be a basic reason, and has it not been accentuated lately

by all of this "mess in Washington" stuff, and has that mess in Washington been justified? I say it has not been. All of the investigations and everything else that have been heretofore conducted have done nothing more nor less than destroy the field force, and it did so here in the Treasury. If that is true, as I see it, it is very unfortunate. We ought to cut it out, and we ought to get down to brass tacks and work along with you and give you authority, and build up this organization and create a school if we have to.

Mr. ANDREWS. Very frankly, on the last matter you mentioned, Mr. Dingell, I am hoping that out of this today I will be able to convince you gentlemen sufficiently that we are doing the right kind of job that you will say to us, "God bless you, and go ahead and get it done as quickly as you can."

Representative DINGELL. Let me just interject right here now, that we in the Committee on Ways and Means frowned upon any cut in personnel at one time, but it was the Appropriations Subcommittee. Twenty-five of us said no cut in personnel, because for the \$12 million we were to save, we would lose \$600 million in revenue. But only 6 men on the subcommittee cut down the force by 1,200 losing \$600 million in revenue to save \$12 million in salaries.

Then we had to fight and plead and beg, we of the committee having basic jurisdiction, to try and get as many reinstated as possible.

You can talk about reorganization. I have advocated for years, and I advocate now, the abolition of the Appropriations Committee, because they too frequently dabble in things they do not know a thing about.

Mr. ANDREWS. May I say a word about that. I do not mean to give you the impression that we are critical of anyone for our personnel situation. The Secretary, and the Appropriations Committee, and everybody involved, has recognized the very problem you state. Let us remember this: that we cannot physically assimilate into the service, under present conditions, more than about 1,000 to 1,200 people a year, so if we could use 10,000—and we could use 10,000 more revenue agents right now effectively—it would not do any good to talk about it, because we just cannot take them on that fast.

Representative DINGELL. I had an understanding of that in the Committee on Ways and Means, but they do not have it in the subcommittee of the Committee on Appropriations.

Mr. ANDREWS. The Appropriations Committee indicated to us in the Senate and the House, when we talked to them on our 1954 budget, that they saw the problem, and they even went so far as to say if you need more money for more agents, come to us and we will give it to you.

Representative DINGELL. After we lost about \$1 billion.

Mr. ANDREWS. I do not know whether we have lost \$1 billion or not.

Representative DINGELL. That may be another part of the story, though. I am sorry.

Mr. ANDREWS. There isn't any doubt about the fact that to the extent that people are not employed on the work of getting in additional money through enforcement work, then of course you are losing revenue. What that amounts to, I really do not know.

Secretary HUMPHREY. I think it is fair to say this, to keep in mind this situation: With the least unemployment there has ever been in this country today, the least percentage of unemployed people, so that

jobs all over are involved, this problem of people is not in this Department alone, but it is in every business and in every department of government. You have a universal problem of people, and the right kind of people, at this time, because frankly, at this level of activity that we are having in the country today, there just are not people enough well qualified to do all of the jobs everywhere. There is a background—and that does not in any way interfere with what Coleman is saying as to the detail—but there is that background that is everywhere.

Mr. ANDREWS. I would like, if I may, because I think that we are now beginning to develop what Mr. Humphrey had in mind and what I had in mind from the beginning, right on this point—that is, a clear understanding of our problems—I want you gentlemen to understand that we people over there are not dragging our feet. We are working pretty well around the clock to get this job done. We may not be doing it right, but if we aren't, it is up here [indicating] and not here in our heart. We are really working at it.

Representative DINGELL. You are speaking of reorganization?

Mr. ANDREWS. We inherited a blueprint on the 4th day of February, and that is all it was. There were 17 regional districts that had been set up. Many of those districts—let us go back a little. Congress said the reorganization must be completed by December 1. In effect that is what it said.

Gentlemen, that was an impossibility from the beginning. It could not be done. I have been in this reorganization business a long, long time, and it goes back to 1924. That has been the principal part of my professional business—reorganizations, and organizations, and getting problems straightened out. I know that when you tackle a country-wide proposition with over 1,400 offices, the biggest business of its kind in the world, and expect to get it done between June and December, you are just kidding yourself, because it cannot be done. Every expert who has ever looked at this situation said said very frankly that it will take you maybe as much as 5 years to do it.

Now, we inherited a blueprint. Some of the elements of our system, that is, the district offices and regional offices, had not even been implemented with instructions of what to do. They did not know what was expected of them. It was not necessarily because they had not had good guidance. It was simply because, gentlemen, there had not been enough time.

We proceeded immediately to try to find out what we could do to get the thing moving. We got the best advice we could find. The previous administration had hired one of the best firms of engineers in the country, and had told them that the plan of organization that was worked out was the plan to be followed.

To everybody who has ever studied the organization of the Bureau, and its reorganization, gentlemen, it has been indicated that it had grown up like Topsy for many years. When you enlarged the tax base, decentralization became inevitable. You cannot control a tax system from Washington with 65 million taxpayers and nearly 100 million tax returns at one time or another in the year, and you cannot do it from any one central place, and don't kid yourself. I give you that as professional advice as well as my advice as an official of the Government.

Now, that is what was inherent. Decentralization was inherent in the whole program of reorganization of the Service. It just has to be that way, gentlemen, and if you do not want it that way, then you have got to reduce your tax base.

Representative DINGELL. You were talked to pretty directly by several of us, and I know I talked both to you and your predecessor, Mr. Dunlap, and as far back as Schoeneman, with regard to decentralization. But what I have always been interested in is to be sure that we do not go so far with decentralization, and I would like assurance on that question or on that point, that in our desire to decentralize, which is a good move, we do not go so far that we do not have any control left here in Washington.

I think I talked to you only a short time ago in a meeting of this committee at the other end of the Capitol, and I expressed my opinion that any reorganization that takes place should connote at the same time a final authority and complete control here in Washington, so that no case that is closed has been permanently and irretrievably closed.

In other words, I think I served notice on you at that time that maybe that afternoon I may hear some complaint about a tax case, and that you should not be surprised if I might be calling you that very afternoon to find out something about it. Now, if I have to go to Cincinnati or Oklahoma City or Seattle to find out something about it by long-winded and complicated correspondence back and forth for about 6 months, I am going to be in a deuce of a fix. I will want to call Coleman Andrews right here in Washington and get the information right now.

Mr. ANDREWS. You can do that.

Representative DINGELL. And I also want to be assured that if that case has been settled in violation of the law, or to the detriment of an honest taxpayer it could be reexamined and reopened, no case has actually been closed once and for all because somebody in the field says, "That is it."

I still want it understood that the little guy on the opposite side of the table from the deputy collector of internal revenue is the sovereign, not the fellow that takes his \$4 as the total amount of his tax to the Government.

Mr. ANDREWS. Mr. Dingell, on that point let me give you this assurance—

Representative DINGELL. And I will stand beside you 100 percent on your decentralization, but I do want some assurances on those scores.

Mr. ANDREWS. Let me give you this assurance, which I hope will satisfy you. It has been determined as a matter of Treasury policy by the Secretary and the instructions have been passed on to me that the Service reserves the right to reopen any case in which there was a significant error against the Government or against the taxpayer.

Representative DINGELL. You are not just nobly passing out your authority which Congress gave you, to the field, and forgetting about it.

Mr. ANDREWS. No, sir; by no means is any such thing as that contemplated. Nobody has ever said that, and we do not intend to say it. We intend to maintain control over every case, but I think you

all agree with us that you do not want taxpayers held in suspense forever on some insignificant issue, which has been done, gentlemen, over and over again; and it is one of the main things we are up against.

Representative COOPER. Mr. Chairman, let me inquire of the Commissioner. I have been a little bit concerned about one phase of your decentralization, and I would appreciate some explanation on that.

On this decentralization, you are to have nine regional offices throughout the country. That is correct; is it?

Mr. ANDREWS. Yes, sir.

Representative COOPER. Now, then, what system are you going to have to insure uniformity between those different offices? Is it going to result like our circuit courts of appeals, the Second Circuit Court of Appeals will hold certain things, and the Fourth Circuit Court of Appeals will hold a different thing, and are we going to have a state of confusion because of conflicts between these different regional offices?

Mr. ANDREWS. We do not think we are. We think we are going to have more uniformity than they ever had before, and I can assure you they have never had uniformity before.

Representative COOPER. I am not concerned so much about the past. I am thinking now about what is going to happen in the future. You have nine regional offices, with authority delegated to those offices, as I understand it, to do the job. Now then, suppose the first region holds a certain thing in a certain case, and then another regional office holds a different thing. You may have a taxpayer in one region paying a certain tax, and a taxpayer in another region in very similar or identical situations paying a different tax.

Now, what are you going to do about that, and how are you going to be able to insure uniformity between all of these regional offices?

Mr. ANDREWS. Congressman, may I say to you first of all that the Tax Court, which sits here in Washington, and of course sits in the field, too—it has never completely avoided that thing happening. I had on my desk just the other day two cases on the same point of the law, and with the same statement of facts, and the decision in one case was favorable to the taxpayer, and against him in the other.

Now, it would be an absolute lack of frankness on my part to sit here and tell you that that is never going to happen under any setup that we might install. But I say to you that we think we can minimize it.

Representative COOPER. I can understand it will happen, of course, with the Tax Court, and it would happen perhaps in rare instances with you here in Washington. But I am just afraid now, when you delegate this authority to nine regional offices, that that situation might be accentuated.

Mr. ANDREWS. It would be accentuated if we simply dumped it in their laps and said to them, "Boys, it is your baby; settle it." We don't intend to do that.

Representative COOPER. That is what I wanted to know. I thought that is what you had in mind, to just delegate authority down to each one of those nine men to try to do the job that heretofore had been done by you and your predecessors here in Washington.

Mr. ANDREWS. Well, it is the authority to make the decisions that heretofore in some cases have been made in Washington, but it doesn't mean that we are not going to maintain control over those decisions, review of them, on selective and scientific bases, so as to be sure that each district is making the same decision as far as is humanly possible for anybody to do, in the same case or the same kind of case, with the same point of law, and the same kind of facts involved. I think that the plan that we have for doing that is superior to what we have had in the past. Now, let us see how this thing works.

Representative COOPER. You do not anticipate any difficulty on that?

Mr. ANDREWS. I certainly do not. And if I did, I would not be putting it in. I think we can improve the situation vastly.

Representative DINGELL. You are going to have to put in some rules and formulas.

Mr. ANDREWS. Of course, we have to put in rules, and in establishing Washington as the control center of this vast organization we naturally have to have rules that they have never had before. We have to have all kinds of checks and controls, including personal visitations from Washington to the regional offices, and regional offices to the district offices, and examination of cases right out of the files, and checking of cases under certain sections of the law to see whether or not what the boys are doing over here are the same things, and if not, why not.

Representative COOPER. That is the point I was getting at. You do intend to have sufficient supervision from your office to see to it that these other offices are all working together.

Mr. ANDREWS. We most assuredly do, and if we find that what we have worked out is not sufficient to assure that, we will tighten it until we get it that way.

Representative COOPER. That is what I was apprehensive about.

Representative DINGELL. I have just one more question, and then I will freeze up. I just want to ask this question, Dan, if you will indulge me. I have expressed concern here time and again about how frequently taxpayers get in a jam by this net-worth method that is being applied now, and thus far there seems to be no remedy. We discussed this the last time.

Mr. ANDREWS. There is a remedy for it.

Representative DINGELL. It is about the duplication of bank deposits, and I want to know whether there is going to be a basic formula, and a certain sound standard that is going to be followed, which you, as a certified public accountant can okay, or whether a man is going to be haled before the Department, your Department, and face an accumulation of spurious back taxes plus interest, plus penalties, plus fraud charges, and then still be hung up for years while compounded interest is running. That is what I want to know.

Mr. ANDREWS. That is what we are trying to cut out, exactly. Now, then, let me tell you, and I am glad you mentioned the net-worth method. In the first place, gentlemen, this method is based upon an accounting technique which is one of the most difficult of all techniques, although to a person experienced in the handling of it, it is really not anything more than a simple procedure. Our difficulty has been—and when I say "our," I mean the service—that the net-

worth theory was adopted without, in my opinion, a proper instruction to those who have to apply it, of how to use it.

Representative DINGELL. They said you just count figures and never mind using your brains.

Mr. ANDREWS. We propose to send out a manual to include in our training, which is an up-to-date discourse on how to use the net-worth theory. It is a good technique if it is properly used.

Representative DINGELL. That is right.

Mr. ANDREWS. And we intend to see that it is properly used.

Representative DINGELL. That is right.

Mr. ANDREWS. Now, on section 102, and talking about this control that we are going to have over things—

Chairman REED. Pardon me. I do not want to interrupt you, Mr. Commissioner, but I am trying to accommodate the Secretary of the Treasury, and I believe you said 4 o'clock was your deadline, and I do want to do that. I have some questions here if we have the time to ask them.

Representative DINGELL. Will you let him answer that question—he is just on the verge of it—on section 102?

Chairman REED. I want to cover about three questions which I think will tend to clarify and make a record, because only a few of the committee are here, and what I want to do is to see that they have a transcript because we cannot hold these meetings very often.

Representative DINGELL. Would you just let him answer that one question?

Chairman REED. Very well.

Representative DINGELL. Would you proceed with that?

Mr. ANDREWS. Take section 102 as an illustration of the question you asked. We know that section 102 is a section under which great diversity of opinion can arise. We know that it is a complex section. Now, one of the control features that we would use would be to select from every district in this country a sample of the 102 cases handled, give them a thorough technical study in our Technical Division here in Washington, and see where the boys are going off the beam and where they haven't, and get some firm, fixed rules, as fixed as they can be, for the application of section 102 to see that there is uniformity as near as it can be attained.

That is a sample of what I mean by controlling this thing from Washington. It will be a policy control.

Representative COOPER. Of course, discretion has to be applied.

Mr. ANDREWS. Of course, in a thing of this kind it is largely a matter of discretion.

Representative COOPER. Discretion has to be applied and the human element enters into it. A man just as honest and sincere and well qualified as a man could be might reach one conclusion and be thoroughly satisfied that he was right; another man just as honest, and just as sincere, and just as well qualified, might reach a different conclusion.

Mr. ANDREWS. That is exactly right.

Representative COOPER. And the thing that I was a little disturbed about was whether you are going to assure yourself that you would have sufficient coordination between these different regions where this human element has to enter into it, and where discretion has to be

applied. In other words, are you going to get out there enough or have someone get out there enough to insure uniformity of decision, so that the taxpayers, and the attorneys, and the accountants, will have something to guide them in their advice to their clients and there will be a degree of uniformity that should prevail in matters of that kind?

Mr. ANDREWS. We think what we are doing will do that. As I said a while ago, if we find it is not achieving what we want, we will tighten it until it does.

Now, remember this always: The foundation stone upon which cases are decided has three points to it—the law, the regulations, and the rulings. Remember that Congress makes the laws, and not us. The regulations are made in Washington, and approved by the Secretary. The rulings are made in Washington, and will continue to be made in Washington. They constitute the pattern by which our field people will be guided. There is no intention whatsoever of taking the making of rulings out of Washington.

Chairman REED. Mr. Commissioner, I wanted to ask these questions and secure your answers, certainly fully, but briefly, too. This question has been brought up here, but I want to get it in a form so that there will be no question about it and everything will be clear as we go along. I notice that the Postaudit Division in Washington has been abolished. It served, as I understand, as a policy agency of reviewing the reports of agents in the field through uniform application of tax laws. That is right along the lines that Jere Cooper here has brought up. That is regulations, policies, and procedures. If the postaudit review in Washington is terminated, I would like to know that procedures are being taken to insure a taxpayer in one part of the country will receive the same treatment as a taxpayer living in another part of the country.

That is right along the lines that we have been asking, and I want to get it on the record. In this connection I believe the following question should be answered:

First, will there be a postreview in the regional commissioner's office, and if so have procedures been established to accomplish the review?

Mr. ANDREWS. In the first place, let me say, that postreview has not been abolished. It is not going to be abolished. Postreview is being moved out of Washington because we don't think this is a place to have it. We think that the proper place to have postreview is in the field where the revenue agent who did the job and the people there in the field who know what it is all about can sit down and intelligently talk to each other and discuss the case, instead of sending it here to somebody in Washington who is supposedly endowed with an omniscience which no one else anywhere else in the service has. We think that is the place to have it, and it will be at the field level. It will be done, in our opinion, far more effectively than it has ever been done in Washington.

Representative DINGELL. It is convenient and cheaper, and everything else.

Chairman REED. How many employees will be required on post-review in the field if it is not done here?

Mr. ANDREWS. Let me give you some figures, in the first place. I think that these will amaze you. In 1953, fiscal 1953, there were 600,000 cases postreviewed in Washington, and only one-fourth of 1 percent, or 1,467 cases, resulted in a change, and the amount of money involved was only \$7,400,000, which, on a most liberal allowance to those who argue for postreview in Washington, is about a 3-to-1 return on the money. And generally when I can get from 15- to 20-to-1 return on it by more revenue agents, tell me, please, what better I can do than provide more revenue agents and less postreview on a more scientific and limited basis and get the job done better.

Chairman REED. Then you do not expect, as I understand it, to use a large number of people in each of the nine districts?

Mr. ANDREWS. We certainly don't intend to use all the people we had in Washington, and we do not need them. With the review sections that we have in the field to check on what the revenue agents and the group chiefs do, everything is checked, and will be checked on a basis that we think will give a much broader coverage than we have ever had before, a far better coverage. I believe we are going to get a lot better result. I know that we are going to get it with a lot less money.

After all, gentlemen, we have got to get rid of every dollar of unnecessary overhead and operating cost that we can in order that we can put our money on the productive end of the business.

Chairman REED. Will the regional commissioner's determination, based on a possible review in his office, be binding upon the director, and if so will the taxpayer be entitled to discuss his case with a representative of the regional commissioner's office if he desires?

Mr. ANDREWS. The taxpayer always has the privilege of going from the director to an appellate officer who is not responsible to the director.

Chairman REED. Is there to be a postreview in the regional office, in the commissioner's office?

Mr. ANDREWS. The postreview will be in the regional office, and the taxpayer who is not happy with what has been done to him in the director's office, if he wants to do it, can appeal to the appellate division, and that is what it is for. We should not do anything to destroy that right of appeal to a higher authority.

Representative DINGELL. Reaching all of the way to Washington.

Mr. ANDREWS. Yes, sir.

Senator MILLIKIN. Where is the appellate division? Is it in the district or in Washington?

Mr. ANDREWS. There are appellate men in the district, and there are appellate people in the district offices and in regional offices, and there is the appellate chief in Washington.

Senator MILLIKIN. If I do not like what is done to me and I want to appeal, to whom do I appeal?

Mr. ANDREWS. You go from the director to the appellate division.

Senator MILLIKIN. In the region?

Mr. ANDREWS. In the district office, and you are still in your home town, on your own ball diamond. But the appellate is not under the directives of the director. He is under the regional commissioner.

Secretary HUMPHREY. I would like to have this cleared up, because I wanted to get this very thing cleared up today. Just carry through

with the dissatisfied taxpayer and show where the dissatisfied taxpayer can go.

Mr. ANDREWS. Let us start right with the examination by the agent. The agent finds that the taxpayer has not paid enough taxes, and he either hasn't reported all of the income he should or he has claimed deductions he should not have. He confers with the taxpayer, and they don't agree. So then they go up to the group supervisor for a conference. The group supervisor and the agent and the taxpayer sit down across the table and try to work out their differences. They don't get them worked out and the taxpayer is still not satisfied. Then a 30-day letter issues, and I might say that before the 30-day letter issues, however, the action of the agent and the action of the group supervisor is reviewed and what goes out in the 30-day letter is the result of a review by people independent of the agent and the group supervisor.

Senator MILLIKIN. Those are people in the district?

Mr. ANDREWS. Yes, still in the district, in your city of Denver, Senator.

Senator BYRD. There is a group chief in each of the offices, in each regional office?

Mr. ANDREWS. They are in the district offices, and not in the regional offices. This now is at the operating level. It is in the local offices.

Representative DINGELL. It is at the first level, in other words.

Mr. ANDREWS. That is right, and now then the taxpayer, after the 30-day letter issues, can still go back to the group supervisor. I want to show you how much opportunity there is to be heard. I want to show you how many people look at these cases.

He can still go back to the group supervisor and say, "Look, I don't think that the facts upon which your decision is based are correct or understood," and he can still get another conference with that group supervisor. If they are still not able to come to terms or agreement, then the taxpayer has a right to appeal to the appellate division, which you will understand is under the regional commissioner, and not under the director. In other words, once you move from the group supervisor's level, you have gotten out from under the director. You are now in the hands of the regional commissioner, who is my deputy.

All right. Now then, they hold a hearing. We will assume the appellate conferee doesn't agree with the taxpayer either.

Chairman REED. May I clarify this just a little in my own mind. How many sit as an appellate?

Mr. ANDREWS. Ordinarily you have an appellate conferee, but there may be two or more people there.

Chairman REED. That is what I want to know.

Mr. ANDREWS. The appellate conferee is not the man, incidentally, who assigns the case for hearing. That is assigned by another man in the appellate department, or the appellate division.

Now, suppose they don't agree in the appellate division. The tax case then goes into docketed status, on a 90-day letter. It is headed for the Tax Court. When they reach the Tax Court there is still an opportunity for the taxpayer to go back and talk to the appellate division on a pretrial conference at which the appellate counsel enters the picture and gets a chance to take a look at it, and they will all try to reach a settlement if they can.

In other words, gentlemen, this whole thing is designed to have as much check as we can on uniformity, on integrity, and at the same time give the taxpayer the maximum opportunity to settle his disputes in the field and not have to come to Washington with them.

Representative DINGELL. Let me ask you there: Is the uniformity standard prescribed here from Washington going to hold in the appellate matters, too?

Mr. ANDREWS. Just as much so as elsewhere.

Representative DINGELL. Because if you do not have it in the appellate arm of the setup, and you do elsewhere, when it comes to an appeal it will not hold water unless they too are bound by a basic standard.

Mr. ANDREWS. The appellate people's findings are also subject to review in the appellate division in Washington.

Chairman REED. Are there any other questions?

Senator BYRD. Is this same procedure followed in criminal cases, or criminal procedures?

Mr. ANDREWS. When you get a criminal case, and our people are convinced that there has been fraud, at the earliest possible moment the case is referred to the Department of Justice with a recommendation for prosecution.

Representative DINGELL. Why do you slap on so many fraud cases that never hold water, and you never press them? Is it just to put a ring in the taxpayer's nose and hold him close, or what is it? I do not think they ought to do that, because it just puts people in jitters, some of our finest people, Mr. Secretary.

Mr. ANDREWS. You mean fraud penalties?

Representative DINGELL. No; fraud charges, and fraud penalties, which are later revoked, and the charges reversed and dropped.

Secretary HUMPHREY. We were talking about that the other day.

Representative DINGELL. I know of one case, for example, where the intervention of a Senator, a Republican Senator, helped settle a matter on a basis of one-eleventh, with \$110,000 involved, and I think that the Government got more than it was entitled to in the \$10,000 settlement. The settlement just looked like the devil. But they had a fraud charge penalty leveled on the man. The case was within 1 day of running out under the statute if it had not had the fraud penalty in it. He, the taxpayer, signed a waiver, and the case continued, and finally because the Senator made the inquiry—and that is all he did; he did absolutely nothing that I would not do. He was a Republican Senator, by the way, during the Democratic administration—the case was settled.

I do know what otherwise this poor devil would have been up against, because the Treasury just had a ring in his nose, and somebody did not care a rap about the discomfort.

Mr. ANDREWS. Congressman, let me say this to you: I am not at all happy about the situation as regards the assertion of fraud charges and fraud penalties. There is, as you know, a distinction between criminal fraud and civil fraud. I am told, and if I am wrong in this distinction Mr. Tuttle can straighten me out, that you assert fraud charges, criminal fraud charges when the preponderance of evidence is enough to give you an indictment before the grand jury. If you assert civil fraud, you do that when there is doubt that you can carry it that far.

Now, I am worried about that last part because I am afraid, very frankly, that there may have been an awful lot of citizens in this country who have been slapped with a civil fraud penalty without complete study.

Representative DINGELL. That is right.

Mr. ANDREWS. And we are studying that question, and I hope we can come up with a reasonable answer to it.

Chairman REED. Pardon me, but I would like to ask another question: On the third question, it relates to the offices of regional commissioners. How many people are engaged in the work of regional commissioners' offices and what is the cost of maintaining nine regional commissioners? How does that compare with the costs under the total system?

Mr. ANDREWS. I don't know that I can answer that question exactly. It depends upon how many people you are going to regard as having been added by virtue of the creation of the regional commissioners' setup.

My recollection is that—and Dr. Atkeson can correct me—taking it strictly on the basis of the number of people added by virtue of the regional commissioners' setup, it was in the neighborhood of \$160,000 per office. This is by no means net additional expense since it provides the added supervision and service essential to obtain greater overall effectiveness and efficiency in operations. The benefits of such supervision will more than offset this cost.

Secretary HUMPHREY. I just wondered if I could make a further statement, because as I explained to you, I have to be up there at 4 o'clock, and I thought an hour and a half would be ample. I am awfully sorry. But I just want to say this to you: I have been engaged in business a long time, and we have had businesses that were scattered out and had to be decentralized, and we had decentralized operations, that all had to head up for policy handling in a single place. We have had a lot of people engaged in accounting work, and in control work because that is the heart of any business. I did not know Mr. Andrews when I came down here. He was recommended to me very highly, and I took him after looking him up carefully from a recommendation point of view. I have never worked with anybody in any business that I have been associated with who has any better grasp of this accounting controlling end of the business than Mr. Andrews has. As we have gone over these things with him, and I have gone over every step that he has made before he made it to understand it—and Mr. Tuttle has, too—I am greatly impressed with the way in which he is holding policy control with decentralization of actual activities.

Chairman REED. Well, Mr. Secretary, do you not think that this review before this committee, bringing out exactly what we are bringing out, is a good thing?

Secretary HUMPHREY. I think it is invaluable. I think that we ought to do it much more often, and I think that we ought to go through this step by step, and I hope that you will have another meeting of your committee very soon, so that we can go at it again.

Chairman REED. We cannot do it until January. The members will not be here.

I know you want to go.

Secretary HUMPHREY. I will let Mr. Andrews answer you further, and I will ask to be excused.

Chairman REED. We thank you very much.

The fourth question relates to the functions of the directors of internal revenue. I understand that there are 64 directors, and that they are charged with the duty of auditing and collecting taxes.

What would happen under such a system if a man like Finnegan happened to be a director?

Mr. ANDREWS. A man like whom?

Chairman REED. It seems that tremendous power lodged in the director's office would create more potential corruption than under the old system, which separated the functions of audit and control. What is there on that?

Mr. ANDREWS. Congressman, I can answer that to my own satisfaction, and I hope I can to yours.

First, let me answer a very important question you asked awhile ago. There are in the regional setups 5,684 people as of August 1. Of those people, 3,579 are alcohol- and tobacco-tax people who have nothing whatsoever to do with the reorganization, and they were there already, and we think we have got them under better control than we ever had them before. They are not addenda, in other words, that have been caused by the reorganization. Ten hundred and sixty-one of them are appellate people and approximately 228 are assigned to Intelligence work.

Senator MILLIKIN. Are what kind of people?

Mr. ANDREWS. They are the appellate people—the old technical staff people. So, actually, we have in the administrative setup of the regional offices about 816 people for the entire country, most of whom are performing functions which, to a large extent, were performed in the offices of the collectors, revenue agents in charge, and others under the prior organization.

Now, answering your other question, what happens to a man like Finnegan. Let us remember that Mr. Finnegan was a collector and he was not a director. Let us remember, also, that at that time, in its original conception, the collection activity was not under civil service. They were almost the same as a separate independent organization. They were not subject to the same kind of control that we have now, and I say to you that under the plan of close check on field operations that we have, if we get a Finnegan in some place as director, I think we are going to find it out a lot quicker than they found it out before and he is not going to last long.

Chairman REED. The next question, the fifth question, relates to the Inspection Service.

Senator MILLIKIN. Why is that, Mr. Commissioner? Why does that come about? Why will you find it out quicker?

Mr. ANDREWS. Because, under the plan of regional supervision, the directors and all of their work will be under constant check by the regional commissioner, who is my deputy, and by the check that we, ourselves, will have on what is going on, I think we will find out much quicker when something is going on that ought not to be going on.

Representative DINGELL. You will be closer to him and he will be closer to you and you will have had him in your setup, and the supposition is that most of those men are going to rise from the ranks.

Mr. ANDREWS. I hope so, eventually, and I would like to see the Revenue Service put on the basis of in-service promotion. I think it is the best thing that could possibly happen to it.

Chairman REED. My fifth question relates to the Inspection Service. If you are relying solely upon Inspection Service to police the field, what training or qualifications do the members of the Inspection Service have in passing upon technical questions?

Mr. ANDREWS. In the first place, your question is based upon a wrong premise. We will not rely solely upon the Inspection Service to police the field. That will not be the only basis we will have.

Now, as to the qualifications of these people, let me point out that the inspection service is our internal audit group. It is their job to see that the procedural aspects of our business are being faithfully observed; that the integrity of the people themselves in the service is being maintained. They will make the character investigations, and they will make the office audits. In other words, our inspection service will be exactly the same thing as a large corporation has where they send their internal auditors around to check on their people and see what is being done. They see that it is being done in accordance with the plan, and faithfully done, and the kind of people in that kind of organization have got to be good auditors and accountants generally.

We intend to have them. At the moment we don't have a head for our inspection service. I am not going to appoint one until I can find the best accountant in America who has had extensive experience in managing a large accounting staff, who is willing to come here and take \$14,800 to run the job. In other words, I am going to have to have a \$50,000 man, and I think I can get him.

Representative DINGELL. How are you going to get it without Congress' permission to pay him \$50,000?

Mr. ANDREWS. I can only pay him \$14,800.

Representative DINGELL. The Commissioner has a complete statement here that he wanted to read, and now he is not going to get a chance to read it.

Chairman REED. We will let him put it in the record.

Representative DINGELL. Can we have copies of your statement?

Mr. ANDREWS. My statement consists pretty largely of notes and scattered documents, and I think the record will pretty well take care of it.

Chairman REED. I think it will.

My sixth question relates to the morale. We have all had all sorts of reports along those lines, and I would like to have you proceed and tell us about that. Reports have come to us that the morale is very low; that long-time career men with technical training are being replaced by men without tax experience or training, and many tax specialists with high grades are being assigned to duties which could be performed by less-trained personnel.

Now, would you give the committee a complete picture of that situation?

Mr. ANDREWS. I will be very happy to.

I have three regional commissioners here in the room. I have not asked them that question, and I do not know what the answer is going to be, but I would like to ask them the first question.

Mr. Krigbaum, regional commissioner of New York—is the morale of your employees low?

#### STATEMENT OF CLARENCE R. KRIGBAUM, REGIONAL COMMISSIONER OF INTERNAL REVENUE, NEW YORK

Mr. KRIGBAUM. It is not as high as I hope it will be soon. It is higher than it was a year and a half ago. It is low to the extent that we are operating extensively on "details," and we are perfecting our organization. As to the so-called deputy collector type of collection officers, I think their morale was low because they haven't reached civil-service standards yet under which they will be covered into our new activities.

I think it is just a question of time now until that will be done. As far as I can see, the morale of our force is only affected by the word "security." If we can get that straight, it will come up.

Representative DINGELL. Was not some of this demoralizing effect that was noticeable and talked about due to the fact that you had so many blanket charges against the Service of "corruption," "mess," and everybody was a crook and a thief and an embezzler, or a potential one, or if not he might have been a pervert? Was that not all involved in it? That brought it down, and we are kind of getting away from it. That was about a year and a half ago when that was at a peak.

Mr. KRIGBAUM. There were no charges of perversion in our district, but there were plenty of blanket charges.

Representative DINGELL. It was charged all Government employees were tainted with perversion.

Mr. KRIGBAUM. You are absolutely right that blanket charges were made, and anonymous charges were written in at the invitation of radio and television with the thought that every poison-pen letter would be thoroughly investigated. The inspection service a couple of weeks ago, when I talked to the chief up there, said that those anonymous letters have gone from a very high peak down to practically nothing.

I would say that the more we investigate that type of a poison-pen letter, the more we get. I think that has really caused, in our district, a lowering of morale among our top-grade revenue agents.

Mr. ANDREWS. Don't worry about me in answering these questions. Just call the shots the way you see them. But are the policies of the inspection service today of such a character that we do not harass people with investigation of that kind of a complaint?

Mr. KRIGBAUM. The policies have been completely changed in the matter of handling poison-pen types of letters that I am talking about, which give no basis for investigation. They have been changed so that reliance has been placed in the field at the present time in the chief inspector, to use his judgment as to how far he should proceed on that, and he has the liberty of not proceeding at all on the basis of no facts.

Representative DINGELL. But on a general plane, you stand behind the employee; do you not?

Mr. KRIGBAUM. Absolutely.

Representative DINGELL. That is exactly what I am for, myself. I stand behind men and women in the field.

Mr. ANDREWS. How long have you been in the Service, Mr. Krigbaum?

Mr. KRIGBAUM. Since before the First World War, with a couple of short spaces out.

Mr. ANDREWS. Most of it in the field?

Mr. KRIGBAUM. Practically all of it. I have had 5 or 6 years in Washington.

Mr. ANDREWS. Mr. Wright is the regional commissioner at Chicago. How long have you been in the Service, Mr. Wright?

**STATEMENT OF E. C. WRIGHT, REGIONAL COMMISSIONER OF INTERNAL REVENUE, CHICAGO, ILL.**

Mr. WRIGHT. Thirty-four years.

Mr. ANDREWS. Most of it in the field?

Mr. WRIGHT. Since 1924.

Mr. ANDREWS. Do you think the morale in your office, in your region, is better or worse than it was 6 months ago?

Mr. WRIGHT. It is much better than it was 6 months ago. It is improving, and in fact we are very encouraged over the improvement in the morale in our region. If we just have a few more things in connection with the firming up of certain segments of our organization so that we have these people in permanent jobs, I do not think we will have any trouble.

Representative DINGELL. So that they know that they are permanent?

Mr. WRIGHT. They are unhappy because they have been on "details" too long. We had a little head start over the other regions. The district in Chicago was the first one organized, a year ago last May.

Representative DINGELL. You have charge of Detroit?

Mr. WRIGHT. I have had charge of Detroit since July 1. I have a fine office in Detroit. I have a fine staff all the way through. I have four directors that I have absolute confidence in, and I have no worry about the integrity of my people. But I want to be able to have all of the employees in the region feel that everyone has confidence in their integrity and that will put the morale up to a very high peak.

Mr. ANDREWS. Mr. Neal is regional commissioner at Cincinnati.

**STATEMENT OF GEORGE E. NEAL, REGIONAL COMMISSIONER OF INTERNAL REVENUE, CINCINNATI, OHIO**

Representative DINGELL. You used to be at Detroit, Mr. Neal, and I have done business with you, but never met you in my life.

Mr. ANDREWS. How long have you been in the Service?

Mr. NEAL. I am in my 40th year, all of it in the field.

Mr. ANDREWS. How is the morale in your area now as compared to what it was 6 months ago?

Mr. NEAL. It is much improved, but it is not what I would like to see it in the collection divisions of the various directors' offices, but that is a problem due to shaping up the organization.

Senatotr MILLIKIN. What causes the depreciation of morale in the instance you just cited?

Mr. NEAL. It is due to the lack of a firm organization setup as yet. These men are "acting," or are "detailed" to that particular segment of the work, and until those are outlined there will be some uncertainty.

That is to be done within the very near future, and in fact, it is only a matter of a few weeks.

Senator MILLIKIN. What are the results of that impaired morale?

Mr. NEAL. I would say merely an uneasy feeling on the part of some of the employees. The lowest point in our morale troubles was back when we were having these rather, what I would call, unjustified or unfair criticisms, which could not be answered primarily by reason of the provisions of section 55 (f) of the code.

Representative DINGELL. May I ask this question of you 2 gentlemen from Chicago and from Cincinnati: You know, Mr. Neal, that over my 11 terms in Congress I have never interfered with you or asked you for anything.

Mr. NEAL. That is true.

Representative DINGELL. Now, I propose not to ask you for anything henceforth, either, but I would like to know this: Are you experiencing any political pressures in your office to make any changes in or on some of your personnel?

Mr. NEAL. No, sir; I have had no trouble on that.

Representative DINGELL. I am glad to hear that, and I supposed there would not be, because the Department has always been on a pretty high plane that way.

Mr. KRIEGBAUM. That is true in New York, too.

Chairman REED. That is true in all departments, is it not?

Mr. KRIEGBAUM. Yes.

Mr. WRIGHT. It is.

Mr. ANDREWS. Now, about the collection set up, I would like to answer your question. The collection setup is in the process, or, rather, the correction of the collection setup is in process, right now. It is the final large change we have to make. That is my "large change." I mean that we know the problem there, and I could tell you gentlemen that when we took over here just 8½ months ago the accounting and collection department of the Service was a shameful mess. We have made a great deal of progress with it, and we expect within a very short time now to have that whole situation straightened out.

I would ask you also to remember that the people in the collection department until very recently were not civil-service appointees, but they were political appointees. Very frankly, a lot of these people just do not know how to measure up to the standards of the people who have heretofore, as the agents, for instance, been under civil service for many, many years. It gripes them just a little bit to have expected of them the standards that we think are proper for people in that division.

Now, as to the occasional use of high-grade employees in clerical work, one of the fundamental things in any business, I think, is that while it is necessary, of course, especially in a large business, to have specialized talent, nevertheless, that business, as such, is a business integrated as a whole. I do not hold to the theory that any person, regardless of what his specialization is, should not step in when a situation arises that requires everybody to put their shoulder to the

wheel, and do it willingly, without a lot of bellyaching. If you are going to permit that sort of thing to be done, then I tell you we will never have top people around.

We have got to have our people understand this is a job to be done and that everybody is responsible for every part of it.

Representative DINGELL. And to do that you have to stand behind your employees.

Mr. ANDREWS. Exactly.

Representative DINGELL. Now, Mr. Chairman, let me ask you this: What is the net result of all of this discussion here? Have we established now that you proceed with your decentralization, but no case, at least, on the part of the taxpayer, is definitely closed without his being able to come as high as yourself for redress? Is that correct?

Mr. ANDREWS. My door is never closed to anybody, an employee or taxpayer or anybody else.

Representative DINGELL. And no one can close him out, if he thinks he has been wronged?

Mr. ANDREWS. No, sir.

Representative DINGELL. And while in most of these cases we want them to be cleared out in the field so they do not accumulate, any of them or all of them are subject to review?

Mr. ANDREWS. That is right. But let me say that the only qualification I make is that as a matter of good organization, and to again support the morale and dignity of your people in their authority to make decisions, we cannot preemptorily take a case out of anybody's hands merely because some taxpayer thinks he is not getting a square deal.

Representative DINGELL. That would just be senseless interference. I mean after a case is supposedly closed, and the taxpayer says that he has been wronged and he produces reasonable information and data, or maybe it is produced by a Senator or by me or someone else, or some lawyer back in Detroit or some Washington lawyer who may be retained in the matter, he might take the matter up with you for reopening? If he produces a due amount of information, that could justify reopening?

Mr. ANDREWS. Absolutely.

Chairman REED. I have two more questions.

I received considerable complaint about decentralization of estate-and gift-tax audits. It does not affect many people, and it is urged that uniformity can best be achieved by having the audit at a central location.

What do you say about that?

Mr. ANDREWS. Mr. Chairman, people are dying every day, and the least number of tax returns in any area—and these are not estate and gift tax returns at all, but the least number of tax returns in any region is over 5 million. The total is over 93 million. We cannot, as a matter of good practice, in my opinion, operate the estate and gift tax division in Washington nearly as well as we can on a decentralized basis.

One of the worst things that happens in the administration of estate and gift taxes—and I have had a lot of cases in that field—is the fact that you cannot get an approach to the problem in Washington, with an understanding of local conditions. I think that that is terribly important. That is especially true in cases of that kind.

We think that we can get just as good administration, better administration as a matter of fact, of estate and gift taxes in the field, with proper direction from Washington. It is always with that reservation, please understand—proper direction and control as to principles of evaluation and procedure and that sort of thing. We can get that much better in the field than we can in Washington. I am confident that we are going to get it; and if we don't, again, we will tighten it until we do, or we will make whatever changes are necessary in order to accomplish it.

Chairman REED. That brings me to the last question. The last question relates to the continuous changing of titles. This must be disturbing to the taxpayers and the Bureau personnel. Why was the name of the Bureau changed to the "Internal Revenue Service"? Will this not create some legal complications, particularly with respect to appropriations? Are you holding the Directors of Internal Revenue free from suits in refund cases? And if so, who should be sued?

Mr. ANDREWS. The Internal Revenue Service has always been known as the Internal Revenue Service. There is my identification card with the name on the bottom of it. All in the world we did was to give it its right name. I do not think that was a terribly important thing, but frankly, from the standpoint of calling as important an activity as tax collection a "bureau," with all of the opprobrium that attaches to that name, I think it was a good thing. The change in designation does not in any way affect existing law, procedures, or practices regarding suits.

Representative DINGELL. You call it the Internal Revenue Service?

Mr. ANDREWS. That is right. When it becomes anything but a service, we are going to be sorry for ourselves.

Chairman REED. We have covered the questions. Is there any person in the room who has anything they wish to say at this hearing?

I want to say this now, that there will be a transcript of this for each of the parties, and of course for you, Mr. Commissioner. It is my policy, unless there is some objection on the part of the committee, that from time to time when Congress is in session, if any questions arise that we think should be clarified, this committee will consider it.

Consequently, I do not want to be held responsible for anything that should happen to go wrong by having the committee criticize me for not calling you together.

I want to thank all of you for your appearance here.

Senator BYRD. Could I ask that the Commissioner be permitted to insert in the record any further explanatory statement that he desires to make?

Chairman REED. That will be done.

Representative COOPER. I move we adjourn, Mr. Chairman.

Chairman REED. The committee will stand adjourned.

(Whereupon, at 4:20 p. m., the joint committee adjourned.)

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